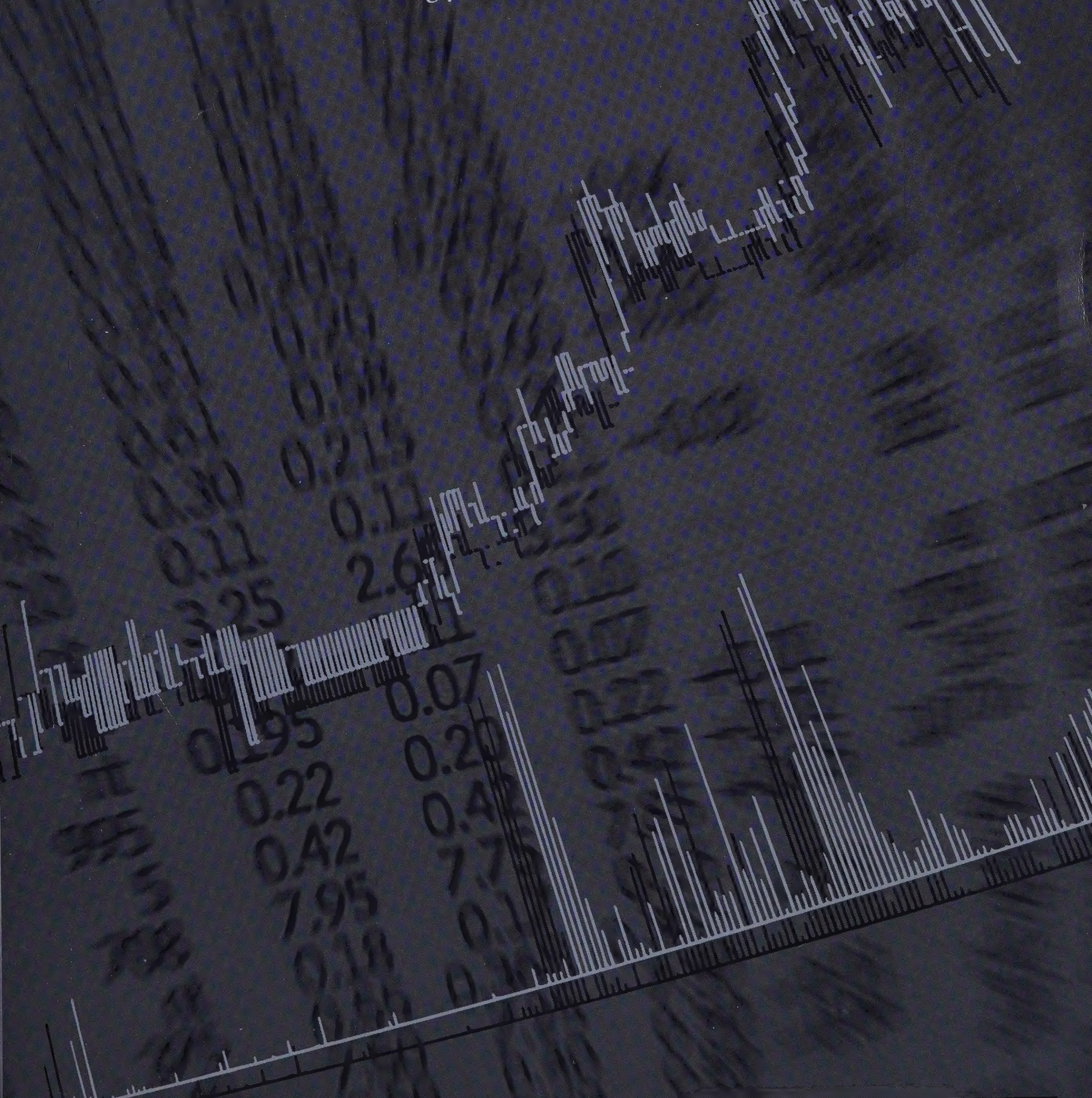
GOAL Energy Inc.



ANNUAL REPORT 1996

CORPORATE PROFILE

GOAL Energy Inc. is a junior Alberta based resource company engaged in the exploration for and production of crude oil and natural gas reserves. GOAL Energy Inc. develops internally generated drilling plays and acquisitions in the provinces of Alberta and Saskatchewan. GOAL's mandate continues to be growth primarily through exploration, with a balance maintained between oil and gas prospects.

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MEANING OF ABBREVIATIONS

W.I.	=	Working Interest	APO	=	After Payout
BOPD	=	Barrels of Oil per Day	BPO	=	Before Payout
Bbl	=	Barrel	BOE	=	Barrels of Oil Equivalent (converting gas to oil at 10,000 cu. ft./Bbl)
mcf/d	=	Thousand cubic feet per day			
Bcf	=	Billion cubic feet			
mmcf/d	=	Million cubic feet per day			

The Annual Meeting of the shareholders will be held on Thursday, May 29, 1997, at 2:00 p.m. in the Boardroom of GOAL's offices at #200, 340 - 12th Ave. S.W., Calgary, Alberta. All shareholders are encouraged to attend.

HIGHLIGHTS

		1996	1995	1994
Production				
Oil	BOPD	65	68	75
Gas	mcf / d	519	444	224
EQUIVALENT BOEPD		117	113	98
Product Price				
Oil	$ / Bbl	25.43	21.76	19.00
Gas	$ / mcf	1.92	1.61	2.02
Lifting Costs				
	$ / BOE	5.35	4.35	5.01
G & A Expenses (including interest)				
	$ / BOE	4.12	3.40	3.66
Cash Flow				
	$ / BOE	10.15	9.18	8.01
Working Interest Reserves				
	Proved 1,000 BOE	531	221	191
	Probable 1,000 BOE	51	79	110
Undeveloped Land				
	Gross acres	29,760	14,410	5,520
	Net acres	8,175	3,572	1,380
Cash Flow				
	$	433,414	376,852	285,922
	$ / share	.022	.021	.016
Earnings				
	$	103,864	91,313	5,922
	$ / share	.0057	.0053	.0003
Net Capital Expenditures				
		591,043	548,265	954,050

PRESIDENT'S MESSAGE

For the fourth consecutive year, GOAL showed growth in production, income, proved reserves and land holdings. The most dramatic improvement during 1996 was experienced in the trading value and volumes of GOAL shares on the Alberta Stock Exchange. The improvement in market awareness was principally fuelled by fourth quarter results in drilling and completion of the Bonnyville acquisition. Success in each of these areas has facilitated a forward momentum for GOAL to a new level of operation and growth potential.

GOAL participated in drilling five wells and the re-entry of two wells this past year, resulting in four oil wells, one gas well and two dry holes, for a success ratio of 71%. GOAL's net capital expenditures to year-end were $591,043, with a further investment of $577,500 on January 1, 1997 to close the Bonnyville acquisition.

GOAL produced an average of 117 BOEPD in 1996, up marginally from 113 BOEPD in 1995. Strong product prices contributed to an increase in cash flow of 14% to $433,414 in 1996. Continued growth in production and cash flow will be realized in 1997 as GOAL exited 1996 at 270 BOEPD as the result of a successful fourth quarter development program.

GOAL completed a $627,000 equity financing in December on a private placement basis. The Directors of the Company placed 1,300,000 flow-through shares at $0.22/share and 1,550,000 common shares at $0.22/share with one share purchase warrant attached at $0.28/share, exercisable before December 1,1997. After deduction of nominal issuance costs of $7,000, GOAL netted $620,000 which was used for the completion of the fall development program. GOAL also moved banking institutions to the Alberta Treasury Branch, increasing the operating line to $1,000,000. Following completion of the Bonnyville acquisition, GOAL's debt stood at approximately $650,000, of which $170,000 was in the form of debenture, convertible at $0.10/share. GOAL is further expanding the operating line to $2,100,000 at the time of writing to facilitate closing the Cold Lake acquisition. Management plans to maintain debt at approximately 1.4 times cash flow during the coming year.

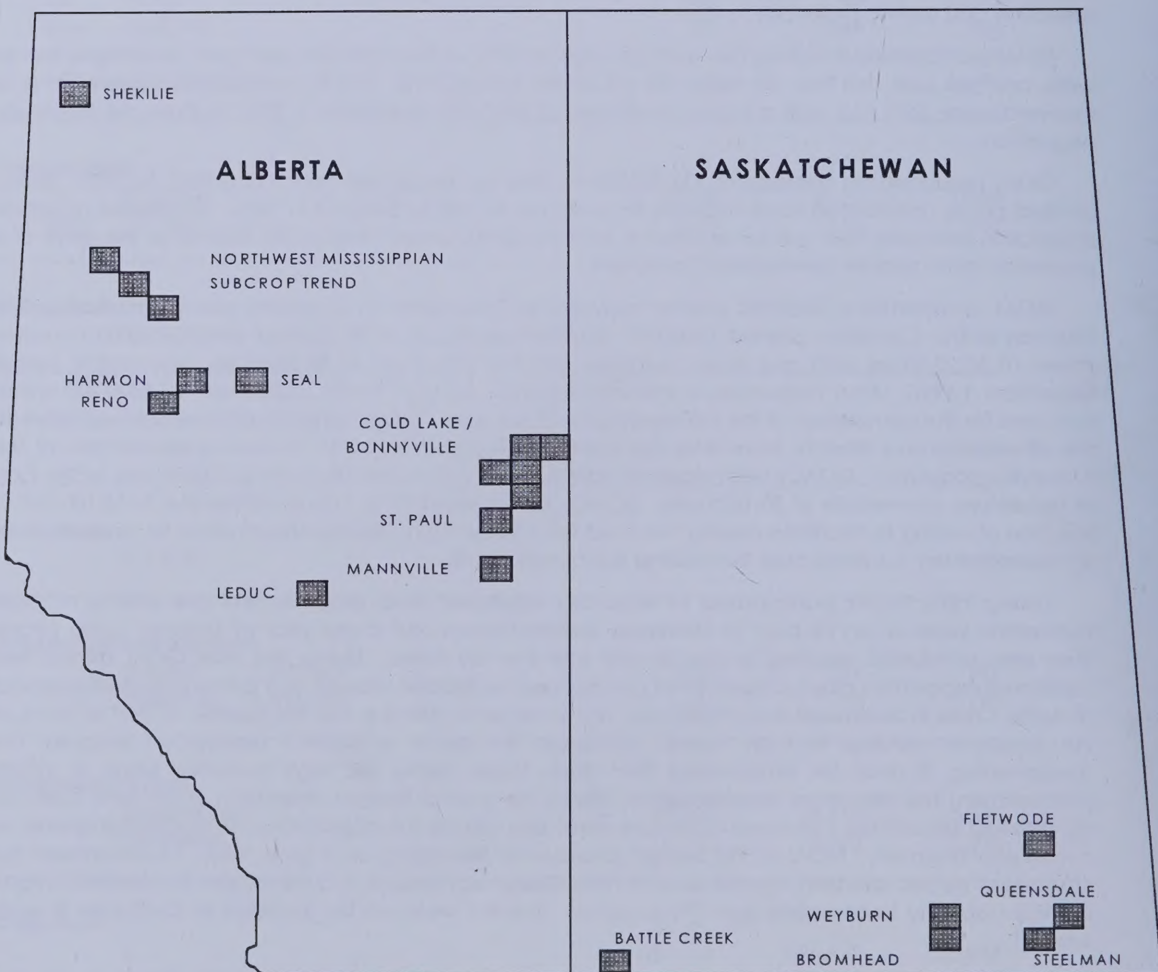
During 1996, GOAL participated in acquiring significant land positions and the drilling of three exploration wells on an oil play at Steelman, Saskatchewan and a gas play at Harmon in the Peace River area of Alberta, resulting in one oil well and two dry holes. During the year GOAL added two additional exploration plays, a Slave Point gas prospect in Shekilie, Alberta and a Shaunavon oil prospect at Battle Creek in Southwest Saskatchewan. Test wells were drilled in the first quarter of 1997 at each of the prospects yielding two dry holes. Although the results of GOAL's exploration program are disappointing, it must be emphasized that these were higher risk, high potential plays to which Management has allocated approximately 15% of the annual budget: therefore, a dry hole does not significantly impact the company's balance sheet and affords the opportunity for substantial upside on a new pool discovery. GOAL's 1997 budget provides for the drilling of 17 gross wells. To circumvent the obstacle of rig unavailability experienced in 1996, GOAL has joined in a commitment to contract a rig of suitable capacity to complete our 1997 program. The first wells will be spudded at Cold Lake in early June.

In the 1995 Annual Report, the Board and Management of GOAL committed to improve the awareness of GOAL in the public markets. On the heels of a number of acquisition and development drilling successes, the shareholders have enjoyed much stronger market support for your Company. The company will have an active 1997 and Management believes GOAL will gain further support as development projects prove successful and exploration projects provide the potential for significant discoveries.

On behalf of the Board of Directors

R. Stephen Kiser, P. Eng.
President

PRODUCING PROPERTIES



PRODUCING PROPERTIES

PRODUCTION

GOAL has developed oil and gas production in Saskatchewan and Alberta, as shown on the preceding map.

GOAL has working interests ranging from 10% to 30% in four producing fields with a total of 10 wells in the Frobisher and Midale oil zones of Southeast Saskatchewan. GOAL divested its interest in Queensdale South in February, 1996, as this property was deemed to be fully developed and funds could be more effectively utilized on GOAL's prospect areas.

GOAL increased the company's interest from 12% to 18% at the Queensdale North property through the acquisition of a partner's interest and participated with a 20% working interest in drilling a horizontal Frobisher well. The new well was a step out from the pool discovered by GOAL et al in the fall of 1993. Over 800 metres of pay was encountered in three legs, all located at the highest structural position in the pool. The well flowed over 500 BOPD on test and averaged 470 BOPD through the first 50 days, reaching payout in less than two months. This property is expected to produce 50 BOPD net to GOAL in 1997.

Two Tilston oil wells were re-entered at Fletwode, Saskatchewan in the fall, establishing a high fluid productivity, high water cut play on GOAL's 25% working interest lands. A water injector was recompleted in January 1997 and one more well will be re-entered for production, and a battery constructed in the spring. This facility is expected to produce over 150 BOPD by early summer.

GOAL has dramatically increased gas reserves and production in Alberta during 1996. Existing net production of approximately 500 mcf/d from GOAL's central Alberta gas properties was more than doubled with the Bonnyville acquisition. Goal purchased a 25% working interest in 15 producing colony gas wells and seven sections of undeveloped land adjacent to the GOAL's Fort Kent production. The acquisition of 1.7 Bcf at a net cost of $575,000, or $3.48/BOE, was closed on January 1,1997. The Bonnyville area has become a core area for GOAL with over 1.0 mmcf/d of current production. An additional acquisition is being completed at the time of writing, which will increase GOAL's production in this area to over 2.0 mmcf/d by spring. GOAL has ten 1997 drilling locations and interests averaging 25% in over 50 sections of land in the area.

1996 PROSPECTS

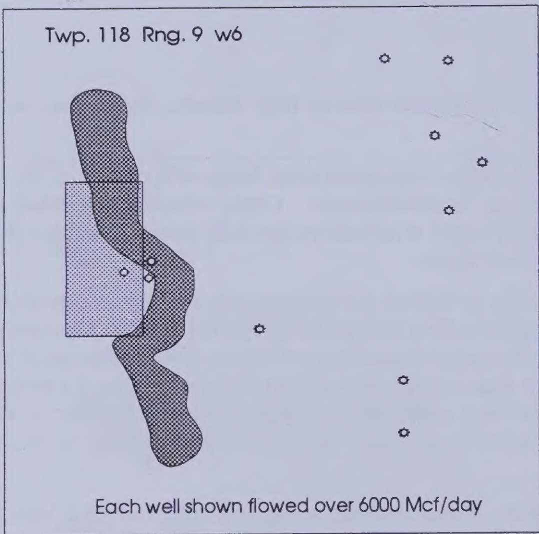
HARMON VALLEY:

GOAL participated with a 25% working interest in the purchase of 8 sections of Crown lands in the Peace River area of Northwest Alberta. Two Gething tests were drilled on the prospect in 1996, validating both licenses. The wells encountered heavy oil sands with no indication of gas. No immediate operations are anticipated at this point.

STEELMAN:

The first Steelman Midale horizontal well was drilled on GOAL's 3,280 acres of prospect lands. The Steelman, Saskatchewan play is a horizontal well prospect to test the marginal limits of the proven Steelman field. Due to the high capital cost of the project, GOAL farmed-out a portion of the 25% working interest, reducing capital exposure to 7.5% to earn a 16.25% interest. The well encountered 450 meters of productive reservoir of the total 725 metre leg. The well had an initial production potential of 100 BOPD and is currently producing 40 BOPD. Although commercial, this rate is too low to continue development of the Midale Marly with horizontal wells at this time. The Southern acreage has a Frobisher play on which GOAL will be participating in a seismic program in the spring of 1997.

1996 PROSPECTS, continued

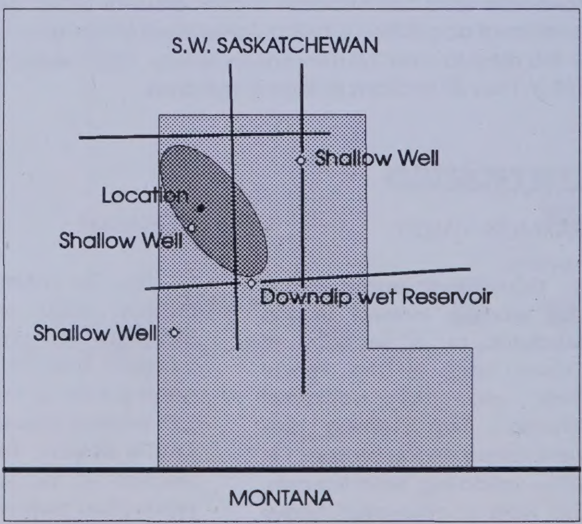


SHEKILIE

The Shekilie area of Northwestern Alberta was developed in the early 1980's as a Keg River pinnacle reef oil play. Many of the early wells discovered gas in the overlying Sulphur Point and Slave Point zones; however, no gas flowed from this remote field until late 1993 when pipelines were finally laid and tied in 30 kms south to the Zama Gas Plant. GOAL's Slave Point prospect, as shown in the adjacent map, was based on an offsetting well drilled in 1982 which tested 5 mmcf/d at over 1,000 psig. The Slave Point is a karsted (collapsed) zone that GOAL has interpreted as fringing the underlying Keg River reef build-ups. Existing seismic was reinterpreted and GOAL participated with a 20% W.I. in the purchase of 1,280 acres of offsetting Crown lands in the spring of 1996. Much of the area is winter access only: therefore, drilling was planned for December 1996. A rig was finally obtained in February 1997, and the test well was drilled, offsetting the discovery well by less than half of a mile. Although the Slave Point was encountered on prognosis, the zone had not been karsted and therefore, had not developed porosity. The well has intermediate casing set just above the Slave Point and only the lower hole was abandoned. The well was suspended, pending a seismic review and reinterpretation. Due to the proximity of proven reservoir, GOAL anticipates drilling a horizontal leg, oriented north on company lands, next winter.

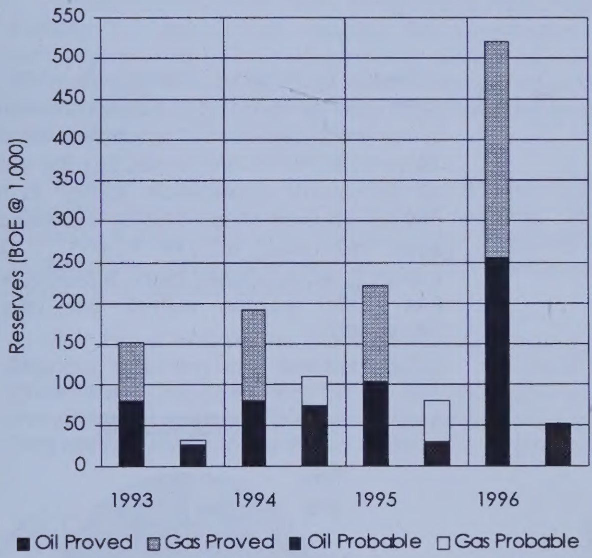
BATTLE CREEK:

GOAL's Battle Creek play is the most exciting play in which the company has participated to date. This area of Southwestern Saskatchewan has become extremely active as 3D seismic and horizontal drilling have proved to enhance the exploration potential of the Shanauvan and Madison oil zones. GOAL participated with a 20% working interest in the shooting of a 2D seismic program and subsequent purchase of seven sections of Crown lands in the fall and winter of 1996. The 2D seismic indicated a significant structural anomaly, suggesting even greater closure than found on seismic over the 4 million barrel Battle Creek South field.



Following delays in obtaining a drilling rig, the test well was spudded in March 1997. A core of the Shaunavon indicated a highly porous and permeable, oil saturated sand. Logs and testing indicated the zone was wet, suggesting either the trap had been breached, or this well was positioned in the transition zone of an updip oil leg. Reinterpretation and additional seismic acquisition, coupled with the test well information, has provided a new updip location that will be drilled in August or September of 1997.

RESERVES GROWTH



GOAL experienced significant oil reserve additions at Queensdale, Saskatchewan. An acquisition of a partner's interest at the North pool offset the divestiture of the fully exploited South pool. A new horizontal well was drilled, extending the North pool updip of the Battery and establishing additional locations.

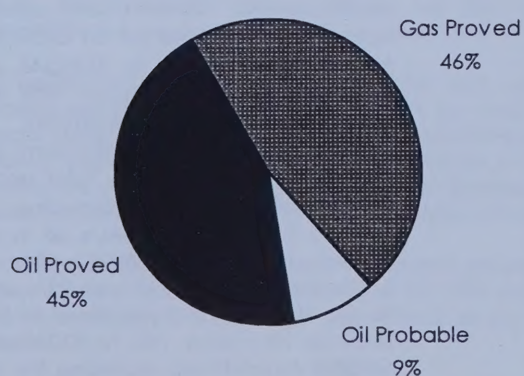
Gas reserves more than doubled through the Bonnyville acquisition. GOAL has now established a significant land position and reserve base in the Bonnyville and Cold Lake areas of Northeast Alberta.

The Company's proved reserves increased 236% in 1996. Probable reserves dropped 35% as the probable gas was reclassified as proved.

The remaining probable oil reserves will be reclassified to proved in 1997 as water handling facilities are installed at Fletwode. These figures do not reflect the first quarter 1997 addition of Cold Lake.

GOAL's four year cumulative cost of finding and developing, excluding undeveloped lands is 5.27/BOE for proved reserves, down 5% from 1995. GOAL is maintaining a target of $5.00/BOE and with the addition of Cold Lake, expects to reach that objective in 1997.

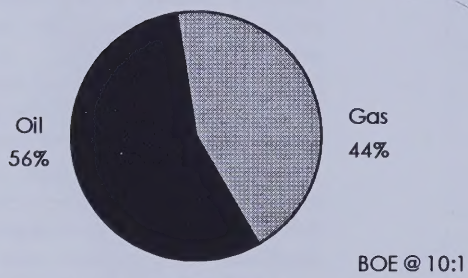
1996 RESERVES DISTRIBUTION



GOAL has continued to maintain a balance in reserves and production between oil and gas. The significant price fluctuations experienced in both oil and gas prices demonstrated the importance to revenue stability, which this commodity balance provides. GOAL has concentrated exploration and development efforts on light oil in Saskatchewan and natural gas in Alberta.

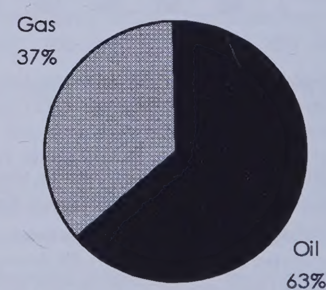
DISCUSSION OF FINANCIAL RESULTS

1996 PRODUCTION



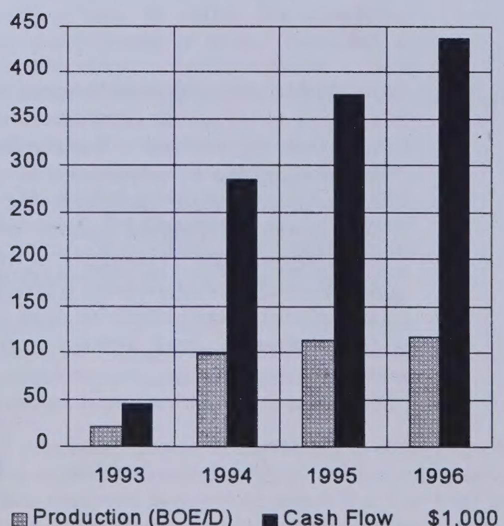
Gas production increased 17% to 519 mcf/d as new production was brought on in the fourth quarter. Oil production declined 4% to 65 BOPD in 1996, reflecting the impact of the sale of Queensdale South. In total, annual equivalent production increased 4% from last year to 117 BOEPD. GOAL experienced significant gains in production in the fourth quarter, exiting the year at 270 BOEPD.

1996 REVENUE



Oil and gas revenue increased to $964,056 in 1996, a 20% increase over 1995. The Company's average oil price rose from $21.76/Bbl in 1995 to $25.43/Bbl, despite hedging losses of $1.51/Bbl. Average gas prices increased from $1.61 in 1995 to $1.92 in 1996. Net revenue, after royalties, increased 19% from $703,427 in 1995 to $837,764 in 1996.

PRODUCTION & CASH FLOW



Lifting costs rose 22% to $5.35/BOE. This increase resulted from two significant battery turnarounds and three workovers in Saskatchewan. General and administrative expenses, before interest on debt, increased from $91,014 in 1995 to $125,245, reflecting professional fees associated with rebanking and the fall equity financing. Interest expenses decreased slightly from $50,811 in 1995 to $50,728 in 1996. Total general and administrative costs, including interest, totalled $4.14/BOE. GOAL's all in net back increased 12% to $10.25/BOE in 1996.

Cash flow increased from $376,852 in 1995 to 433,414, or $0.022 per share in 1996. Net earnings increased 14% to $103,864 in 1996. Capital expenditures, including the Bonnyville acquisition, increased from $548,265 in 1995 to $1,168,543 net of divestitures in 1996. GOAL's tax pools sheltered all income from current income tax.

MANAGEMENT'S REPORT

The management of GOAL Energy Inc. is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of financial statements in accordance with Canadian generally accepted accounting principles. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures, and exercises its best judgment in order that such statements reflect fairly the financial position, results of operations and cash flows of GOAL Energy Inc.

In order to gather and control financial data, GOAL Energy Inc. has established accounting and reporting systems supported by internal controls. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the records are reliable for preparing financial statements and other data, and maintaining accountability for assets.

The Board of Directors is responsible for insuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. This committee meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

R. Stephen Kiser, P. Eng.
President and Chief Executive Officer

Bruce Webster
Secretary Treasurer and Director

AUDITOR'S REPORT

To the Shareholders of
GOAL Energy Inc.

I have audited the balance sheet of GOAL Energy Inc. as at December 31, 1996 and the statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
April 7, 1997

John J. Geib
Chartered Accountant

GOAL Energy Inc.
BALANCE SHEET
December 31, 1996

	1996	1995
ASSETS		
Current		
Accounts receivable	**268,291**	36,520
Prepaid expenses	**-**	1,557
	$ 268,291	38,077
Capital assets (Note 2)	**2,227,788**	1,871,495
	$ 2,496,079	$ 1,909,572
LIABILITIES		
Current		
Bank indebtedness **(Note 5)**	**$ 139,823**	$ 353,835
Accounts payable	**27,931**	53,076
	167,754	406,911
Debentures (Note 3)	**190,000**	200,000
Accrued Abandonment Costs	**104,700**	63,200
Deferred Income Taxes	**199,000**	21,000
Commitment (Note 8)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 4)	**1,633,279**	1,120,979
Retained Earnings	**201,346**	97,482
	1,834,625	1,218,461
	$ 2,496,079	$ 1,909,572

On behalf of the Board

Director

Director

GOAL Energy Inc.
STATEMENT OF INCOME and RETAINED EARNINGS
For the year ended December 31, 1996

		1996		1995
Revenue	$	**964,056**	$	802,690
Direct Costs				
Depletion and depreciation		**276,250**		277,260
Operating		**228,377**		178,603
Royalties		**126,292**		99,218
		630,919		555,081
Revenue from Operation		**333,137**		247,609
Other Expenses				
Bank charges and interest		**30,852**		48,782
Interest on long term debt		**19,876**		2,029
Consulting fees		**60,425**		45,929
Office		**17,623**		13,735
Professional fees		**33,872**		12,979
Rent		**13,325**		16,342
		175,973		139,796
Income Before Income Taxes		**157,164**		107,813
Deferred Income Taxes		**53,300**		16,500
Net Income for the Year		**103,864**		91,313
Retained Earnings, Beginning of Year		**97,482**		6,169
Retained Earnings, End of Year	$	**201,346**	$	97,482
Earnings per Share	$	**0.0057**	$	0.0053

GOAL Energy Inc.
STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended December 31, 1996

	1996	1995
Operating Activities		
Net income for the year	$ 103,864	$ 91,313
Item not requiring cash		
Depletion and depreciation	234,750	250,060
Accrued abandonment costs	41,500	27,200
Deferred income taxes	53,300	16,500
	433,414	385,073
Changes in non-cash working capital balances related to operations	(255,359)	124,056
	178,055	509,129
Financing Activities		
Issuance (conversion) of debentures	(10,000)	200,000
Issuance of share capital	637,000	-
Tax benefits to be renounced	(124,700)	-
	502,300	200,000
Investing Activities		
Geological costs capitalized	(25,299)	(34,710)
Exploration and lease acquisition	(711,126)	(616,323)
Proceeds of sale of petroleum and natural gas properties	145,382	102,768
Tax benefits renounced	124,700	-
	(466,343)	(548,265)
Increase (decrease) in cash during the year	214,012	160,864
Cash, (bank indebtedness) beginning of year	(353,835)	(514,699)
*** Bank indebtedness, end of year**	(139,823)	$ (353,835)

* Bank indebtedness is comprised of cash less short term operating credits

GOAL Energy Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 1996

1. Summary of Significant Accounting Policies

GOAL Energy Inc. is a publicly traded Company engaged in the oil and gas business and is incorporated under the Alberta Business Corporations Act. These financial statements are prepared in accordance with generally accepted accounting principles, the more significant of which are:

a) Capitalized Costs

The Company follows the full cost method of accounting in accordance with the guideline issued by The Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for, and development of, oil and gas reserves, whether productive or nonproductive, are capitalized in cost centres. Such costs include land acquisition, drilling, geological and geophysical expenses related to exploration and development activities.

Gains or losses are not recognized upon the disposition of oil and gas properties unless such a disposition would change the depletion rate by 10% or more. Gains and losses are recognized upon the disposition of other assets.

Government incentives and the estimated tax value of renounced expenditures are credited to the cost of oil and gas properties.

b) Depreciation and Depletion

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided using the unit of production method based on estimated proved petroleum and natural gas reserves as determined by independent engineers and management estimates.

The depletion and depreciation base includes total capitalization costs, less costs of unproved properties, net of impairment and future salvage values, plus provision for future development costs of undeveloped reserves, as determined by independent engineers and management estimates. Costs not subject to depletion totalled $296,000 (1995- $287,000)

The relative volumes of oil and natural gas reserves and production are converted to equivalent barrels of oil based upon the relative energy content of each product.

Furniture and fixtures are carried at cost and are depreciated over the estimated useful lives of the assets at rates of 20% calculated on declining basis.

c) Accrued Abandonment Costs

The Company annually estimates the future costs associated with the site restoration and abandonment of well sites and facilities by specific areas. An accrual for abandonment is made using the unit of production method. Actual abandonment expenditures are charged as incurred to the accumulated abandonment provision. The provision of $41,500 (1995 - $27,200) is included in depletion and depreciation expense.

d) Ceiling Limitations

The Company applies an annual ceiling test to capitalized costs, net of deferred income taxes to ensure that the net carrying value does not exceed the estimated value of future net revenues from production of proven reserves less future production-related general and administrative expenses, financing costs, estimated future abandonment costs and income taxes. Any reduction in value as a result of the ceiling test, is charged to operations.

1. **Summary of Significant Accounting Policies Continued**

The calculation of future net revenues is based upon sales prices, costs and regulations in effect at year-end.

e) ***Income Taxes***

The Company accounts for income taxes by the tax allocation method, whereby income tax expense is determined as the amount that would be payable if statutory tax deductions for drilling, exploration and property acquisition costs and for capital cost allowances were claimed for tax purposes at the same rate as the related depletion and depreciation provisions charged against income.

f) ***Flow-through Shares***

The Company has financed certain of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share issue, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the properties acquired and the shares issued are recorded net of the tax benefits renounced to subscribers.

g) ***Joint Ventures***

Certain of the Company's exploration and development activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

2. Capital Assets

	1996			1995
	Cost	Amortization	Net Book Value	Net Book Value
Petroleum and natural gas properties	$ 2,986,739	$ 764,250	$ 2,222,129	$ 1,864,436
Furniture and equipment	11,028	5,369	5,659	7,059
	$ 2,997,407	$ 769,619	$ 2,227,788	$1,871,495

The Company has unused cumulative Canadian oil and gas property expense of $337,909, cumulative Canadian development expense of $468,919 and cumulative Canadian exploration expense of $405,989 available to reduce future taxable income.

3. Debentures

During the year ended December 31, 1995, the Company issued $200,000 of 10% convertible redeemable debentures with a maturity date of November 30, 1997. Interest is calculated at 10% per annum payable each calendar year quarter. The debenture is convertible into common shares of the Company at $0.10 per share before November 30, 1997. The Company may redeem the debenture in whole or part after November 30, 1996 and before May 31, 1997 at a 6% premium and after June 1, 1997 until the date of maturity at a 5% premium.

On November 14, 1996, a debenture holder elected to convert $10,000 of debentures into 100,000 common shares in accordance with the terms of the debenture agreement.

4. Share Capital

Authorized:
Unlimited number of common voting shares
Unlimited number of preferred shares

Issued:

	1996		1995	
	Number	Consideration	Number	
Consideration				
Balance, beginning of year	17,930,000	$ 1,120,979	17,655,000	$ 1,318,479
Flow-through issue	1,300,000	286,000	-	-
Private placement issue	1,550,000	341,000	-	-
Conversion of debentures	100,000	10,000	-	-
Tax benefits to be renounced	-	(124,700)	-	-
	20,880,000	$ 1,633,279	17,930,000	$ 1,120,979

On November 15, 1996, a debenture holder elected to convert $10,000 of debentures into 100,000 common shares in accordance with the terms of the debenture agreement.

At December 31, 1996, the Company had stock options outstanding to certain directors as follows:

780,000 common shares at $0.10, expiring December 31, 1998
875,000 common shares at $0.25, expiring May 19, 1997

At December 31, 1996, 1,470,000 common shares were held in escrow.

Subsequent to December 31, 1996, the Company issued stock options to consultants of the Company as follows:

Vesting Date	Expiry Date	Number of Shares	Option Price
January 10, 1997	January 10, 2000	50,000	$0.25
January 10, 1998	January 10, 2000	50,000	$0.25
January 10, 1999	January 10, 2000	50,000	$0.25
January 10, 2000	January 10, 2000	50,000	$0.25

5. Bank Indebtedness

Bank indebtedness is comprised of an operating demand loan with interest payable at bank prime plus one percent. Collateral for the loan includes a general assignment of book debts and a fixed and floating charge debenture over oil and gas properties and all other assets.

6. Related Party Transactions

During the year the Company paid remuneration to officers and/or directors or their nominees in the amount of $81,291 (1995 - $80,489).

At December 31, 1996, $50,000 of the total outstanding debentures issued are held by directors and/or immediate family members. A total of $5,000 in interest was paid to the holders of said debentures. In addition, included in the balance of trade accounts receivable at December 31, 1996 are receivables in the amount of $88,000 which are due from directors of the Company.

7. Income Taxes

The Company's current tax rate differs from the statutory rate for the following reasons:

	1996	1995
Federal statutory rate	**38.0%**	38.0%
Federal tax abatement	**(10.0)**	(10.0)
Provincial statutory rate	**15.5**	15.5
	43.5	43.5
Resource allowance (net of crown)	**(9.6)**	(28.3)
	33.9	15.3

8. Commitment

The Company has entered into a contract to secure exclusive use of a drilling rig from June 1, 1997 to May 31, 1999. Under terms of the agreement, the Company has committed to a minimum of 52 net drilling days per year at approximately $532,800 annually. The Company has the right to offer drilling times to other operators in the event they do not need the entire 52 days net per year to complete their drilling program. The Company may terminate its obligation during the term of the agreement by paying a penalty of $100,000 for the first year or $60,000 in the final year of the contract.

9. Subsequent Events

On January 1, 1997, the Company completed a purchase of petroleum and natural gas rights and miscellaneous tangible equipment in the Bonnyville area for total consideration of 577,500.

In addition, effective February 1, 1997 the Company acquired petroleum and natural gas rights in the Cold Lake area for total consideration of $1,528,702.

CORPORATE INFORMATION

Officers

R. Stephen Kiser, President & C.E.O.
Bruce Webster, Secretary Treasurer

Directors

R. Stephen Kiser, Chairman
Brett Ironside
Bruce Webster
Fred Peacock

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T2R 1L5

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Calgary, Alberta
T2H 2N1

Solicitors

Bennett Jones Verchere - Barristers & Solicitors
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855 - 2nd Street S.W.
Calgary, Alberta
T2P 4K7

Transfer Agent & Registrar

Montreal Trust
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Calgary, Alberta
T2P 3S8

Bank

Alberta Treasury Branches
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Stock Exchange

Alberta Stock Exchange
300 - 5th Avenue S.W.
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Trading Symbol

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